

USC Marshall

School of Business

ACC 581

Financial Statement Analysis

Th 6.30-9.30pm JKP 202

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COURSE DESCRIPTION

Financial Statement Analysis primarily deals with analyzing and using information from corporate financial reports for the purpose of business analysis and decision making. You will learn to assess earnings (and accounting) quality and reconstruct financial statements for the purpose of financial decisions. You will learn financial analysis tools and techniques such as analyzing profitability and return on investment, cash flow analysis, and forecasting pro-forma financial statements. Finally, you will learn to apply financial analysis techniques in full blown exercises of credit analysis and equity valuation. The course will cover many cases from companies in a variety of different industries. This course will also provide an important integration of accounting and finance concepts. This course is useful for those seeking careers in finance (securities analysis, banking, investment banking, corporate finance and real estate finance).

LEARNING OBJECTIVES

1. Provide you a deeper understanding and appreciation of financial statement information and how this information can be used in business analysis.
2. Enable you to assess accounting/earnings quality, i.e., how well the accounting methods used by a business reflect its underlying economic situation and quantify any major accounting distortions. Also make necessary adjustments to reported numbers to suit your analysis objectives.
3. Enable you to use the financial statement information to conduct a comprehensive ratio analysis of a business to evaluate its profitability, financial health and financial performance.
4. Enable you to provide a plausible and internally consistent set of financial statement forecasts for a business through an appropriate forecast horizon and to critically evaluate the forecasting models of others.
5. Enable you to estimate a plausible valuation for a business and to critically evaluate the valuation estimates provided by others.
6. Enable you to assess the credit worthiness of a business and inherent risk in lending.

The coverage of the course is broad and the emphasis of the course is on content. Critical thinking skills and group work will be covered as part of the learning process, but are not the primary course objectives.

ORGANIZATIONAL DETAILS

Course Materials

Recommended Text Book: Financial Statement Analysis, K.R. Subramanyam, 11th Edition, McGraw Hill, 2014. This text is not required.

Blackboard: Study Notes, Class Slides, Cases (subject to copyright), Company Reports, Articles and Research Papers will be put on Blackboard (<https://blackboard.usc.edu/>) as required. Class slides and recordings will be put up prior to, or after, the relevant session.

Prerequisites

GSBA 510 or equivalent. Basic knowledge of financial accounting is necessary. Also some basic knowledge of finance is required.

Grading Policy

Homework	15%
Quizzes	15%
Final Exam	30%
Group Project	30%
Class participation	10%
	<u>100%</u>

Homework is to be attempted individually. Five homework assignments will be assigned, out of which the best three will be counted towards the grade. Homework should be turned in online via Blackboard prior to class on the scheduled date in a single PDF or WORD document that can be printed easily. Please do not turn in Excel worksheets.

Three in-class quizzes will be given during the semester (5% X 3). These quizzes will be closed-book (with five multiple-choice questions each) and should be individually attempted.

Final exam will be open book with comprehensive coverage. To be individually attempted. Details of the final exam will be provided later.

Project should be attempted in groups. Suggested group size is 5 members, but some flexibility will be allowed. You should form groups on your own and email me names of group members by Feb 15. Details about the project will be given later. Project will have two submissions which should be turned in online via Blackboard on the due date in a pdf file. An Excel sheet with supporting computation should be provided in addition.

Class participation is based on the regularity, extent and quality of participation in class.

Retention of Graded Work

All graded materials will be retained on Blackboard for one year following the student's receipt of their grade.

NATURE OF INSTRUCTION AND CLASSROOM ETIQUETTE

- Instruction will be entirely through physical classroom sessions in the assigned venue (JKP 202) and during the assigned times (3.30-4.50 pm Tue & Thu). Student will not be allowed to attend through Zoom.
- Students who are sick should not attend class. I shall make alternative arrangement for these students to cover class material. Please email me if you have missed class due to sickness.
- Office hours and remedial sessions will be through Zoom. Frequency/timings will depend on student need and my availability. For office hours please email me to fix a time.
- Please attend all classes (unless unavoidable). Be on time and stay till the end of class.
- Please bring material specified in the schedule to class (I prefer printout but you could also bring an iPad where you can write notes). This will help you take notes in class.
- Please participate actively in class, especially during case discussions. Please clear doubts on the spot in class. This is the best form of learning.
- Please shut-off phones and other electronic devices during class time as a courtesy to other students.

Class Schedule

Date	#	Class Discussion	Readings/Assignments
Part I: Introduction			
Jan 13	1	<ul style="list-style-type: none"> - Course Introduction - Understanding Financial Statements - I 	<ul style="list-style-type: none"> - <u>Browse</u>: TXT¹ 4-14 - <u>Slides</u>: Session 1 Class Slides (BB) - <u>Case</u>: “T-Shirt Example” (BB)
	2	<ul style="list-style-type: none"> - Understanding Financial Statements - II 	<ul style="list-style-type: none"> - <u>Slides</u>: Sessions 2-4 Class Slides (BB) - <u>Case</u>: “Articulating Financial Statements” (BB)
Jan 20	3	<ul style="list-style-type: none"> - Financial Reporting – I <ul style="list-style-type: none"> o 10K & Financial Statements 	<ul style="list-style-type: none"> - <u>Browse</u>: TXT 15-27 - <u>Slides</u>: Sessions 2-4 Class Slides (BB) - <u>Examine</u>: Honeywell 10K (BB)
	4	<ul style="list-style-type: none"> - Financial Reporting – II <ul style="list-style-type: none"> o Analyzing Financial Statements 	<ul style="list-style-type: none"> - <u>Slides</u>: Sessions 2-4 Class Slides (BB) - <u>Examine</u>: Honeywell 10K (BB)
Part II: Accounting Analysis			
Jan 27	5	<ul style="list-style-type: none"> - Introduction to Accounting Analysis – I 	<ul style="list-style-type: none"> - <u>Case</u>: “Boston Chicken” (BB) - <u>HW # 1 Due By 10pm</u>
	6	<ul style="list-style-type: none"> - Introduction to Accounting Analysis – II <ul style="list-style-type: none"> o Accounting/Earnings Quality - Income Statement Issues - I <ul style="list-style-type: none"> o Concept of Earnings 	<ul style="list-style-type: none"> - <u>Browse</u>: TXT 91-97, 106-113 - <u>Slides</u>: Sessions 6-8 Class Slides (BB)

¹ TXT refers to required text book. BB = Blackboard

Date	#	Class Discussion	Readings/Assignments
Feb 3	7	<ul style="list-style-type: none"> - Income Statement Issues – II <ul style="list-style-type: none"> o Income Statement Geography o Non-recurring Items 	<ul style="list-style-type: none"> - <u>Browse</u>: TXT 338-361 - <u>Slides</u>: Sessions 6-8 Class Slides (BB) - Case: Pfizer Non-Recurring Items (BB)
	8	<ul style="list-style-type: none"> - Income Statement Issues – III <ul style="list-style-type: none"> o Non-GAAP Earnings 	<ul style="list-style-type: none"> - <u>Slides</u>: Sessions 6-8 Class Slides (BB) - <u>Read</u>: Has Non-GAAP Reporting Become an Accounting Chasm? (BB) - <u>Case</u>: “Uber Technologies” (BB)
Feb 10	9	<ul style="list-style-type: none"> - Deferred Taxes 	<ul style="list-style-type: none"> - <u>Browse</u>: TXT 378-385 - <u>Slides</u>: Sessions 9 Class Slides (BB) - <u>Examine</u>: Honeywell 10K (BB) - <u>HW # 2 Due By 10pm</u> - <u>Group Names Due (Email Kien Tran)</u>
	10	<ul style="list-style-type: none"> - Balance Sheet Issues – I <ul style="list-style-type: none"> o Assets & Intangibles 	<ul style="list-style-type: none"> - <u>Browse</u>: TXT 243-256 - <u>Slides</u>: Sessions 10-12 Class Slides (BB)
Feb 17	11	<ul style="list-style-type: none"> - Balance Sheet Issues – II <ul style="list-style-type: none"> o Intercompany Investments o Consolidation - <u>Quiz # 1</u> 	<ul style="list-style-type: none"> - <u>Browse</u>: TXT 274-293 - <u>Slides</u>: Session 10-12 Class Slides (BB)
	12	<ul style="list-style-type: none"> - Balance Sheet Issues – III <ul style="list-style-type: none"> o Liabilities o Shareholders Equity 	<ul style="list-style-type: none"> - <u>Browse</u>: TXT 166-177, 370-377 - <u>Slides</u>: Session 10-12 Class Slides (BB)
Feb 24	13	<ul style="list-style-type: none"> - Overview of Accounting Analysis – I 	<ul style="list-style-type: none"> - Case: MakeBelieve Corporation (BB)
	14	<ul style="list-style-type: none"> - Overview of Accounting Analysis – II 	<ul style="list-style-type: none"> - Case: DuPont (BB)

Date	#	Class Discussion	Readings/Assignments
Part III: Financial Analysis			
Mar 3	15	<ul style="list-style-type: none"> - Overview of Financial Analysis - Analyzing Profitability – I <ul style="list-style-type: none"> o Rearranging Financial Statements 	<ul style="list-style-type: none"> - <u>Browse</u>: TXT 27-39, 460-485 - <u>Slides</u>: Sessions 15-16 Slides - <u>Case</u>: “Costco vs Walmart” (BB)
	16	<ul style="list-style-type: none"> - Analyzing Profitability – II <ul style="list-style-type: none"> o Three stage break-up of ROE 	<ul style="list-style-type: none"> - <u>Slides</u>: Sessions 15-16 Slides - <u>Case</u>: “Costco vs Walmart” (BB)
Mar 10	17	<ul style="list-style-type: none"> - Analyzing Cash Flows – I <ul style="list-style-type: none"> o Understanding Cash Flows o Analyzing Cash Flows 	<ul style="list-style-type: none"> - <u>Browse</u>: TXT 417-437 - <u>Slides</u>: Sessions 17-18 Slides - <u>Case</u>: “Pfizer’s Cash Flows” -
	18	<ul style="list-style-type: none"> - Analyzing Cash Flows – II <ul style="list-style-type: none"> o Analyzing Cash Flows - <u>Quiz # 2</u> 	<ul style="list-style-type: none"> - <u>Slides</u>: Sessions 17-18 Slides - <u>Case</u>: “Pfizer’s Cash Flows”
Mar 17		SPRING BREAK	
Mar 24	19	<ul style="list-style-type: none"> - Profitability & Cash Flow Analysis- Recap I <ul style="list-style-type: none"> o Recap Case 	<ul style="list-style-type: none"> - <u>Case</u>: TBD (BB) - <u>HW # 3 Due By 10 pm</u>
	20	<ul style="list-style-type: none"> - Profitability & Cash Flow Analysis- Recap II <ul style="list-style-type: none"> o Recap Case 	<ul style="list-style-type: none"> - <u>Case</u>: TBD (BB)
Mar 31	21	<ul style="list-style-type: none"> - Forecasting Financial Statements – I 	<ul style="list-style-type: none"> - <u>Browse</u>: Note on Forecasting Financial Statement Attributes (BB) - <u>Slides</u>: Session 21-22 Slides - <u>Case</u>: “Dell Inc.: Forecasting and Equity Valuation” (BB)
	22	<ul style="list-style-type: none"> - Forecasting Financial Statements - II 	<ul style="list-style-type: none"> - <u>Slides</u>: Session 21-22 Slides - <u>Case</u>: “Dell Inc.: Forecasting and Equity Valuation” (BB)

Date	#	Class Discussion	Readings/Assignments
Part IV: Equity Analysis			
Apr 7	23	<ul style="list-style-type: none"> - Equity Valuation – I <ul style="list-style-type: none"> o Theoretical Discussion 	<ul style="list-style-type: none"> - <u>Slides</u>: Sessions 23-26 Slides - <u>Project Stage I Due By 10pm</u>
	24	<ul style="list-style-type: none"> - Equity Valuation – II <ul style="list-style-type: none"> o Applying Valuation Models 	<ul style="list-style-type: none"> - <u>Slides</u>: Sessions 23-26 Slides - <u>Case</u>: “Dell Inc.: Forecasting and Equity Valuation” (BB)
Apr 14	25	<ul style="list-style-type: none"> - Equity Valuation – VI <ul style="list-style-type: none"> o Recap Case 	<ul style="list-style-type: none"> - Case: TBD
	26	<ul style="list-style-type: none"> - Equity Valuation - V <ul style="list-style-type: none"> o Relative Valuation 	<ul style="list-style-type: none"> - <u>Browse</u>: Note on Multiples (BB) - <u>Slides</u>: Sessions 23-26 Slides - <u>Case</u>: “Multiples Based Valuation” - <u>HW # 4 Due by 10pm</u>
Part V: Credit Analysis			
Apr 21	27	<ul style="list-style-type: none"> - Credit Analysis – I <ul style="list-style-type: none"> o Credit Rating o Evaluating credit risk 	<ul style="list-style-type: none"> - <u>Browse</u>: TXT 542-585 - <u>Slides</u>: Session 27-28 Slides - <u>Case</u>: Amazon.Bomb (BB) -
	28	<ul style="list-style-type: none"> - Credit Analysis – II <ul style="list-style-type: none"> o Evaluating credit protections o Bankruptcy, Default prediction 	<ul style="list-style-type: none"> - <u>Read</u>: TXT 134-145 - <u>Slides</u>: Session 27-28 Slides
Apr 28	29	<ul style="list-style-type: none"> - Credit Analysis – III <ul style="list-style-type: none"> o Recap Case - <u>Quiz # 3</u> 	<ul style="list-style-type: none"> - Case: TBD
	30	<ul style="list-style-type: none"> - Course Wrap-Up - Final Exam Details 	<ul style="list-style-type: none"> - <u>HW # 5 Due by 10pm</u>

Statement on Academic Conduct and Support Systems

Academic Conduct:

Plagiarism – presenting someone else’s ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences. Please familiarize yourself with the discussion of plagiarism in SCampus in Part B, Section 11, “Behavior Violating University Standards” policy.usc.edu/scampus-part-b. Other forms of academic dishonesty are equally unacceptable. See additional information in SCampus and university policies on [Research and Scholarship Misconduct](#).

Students and Disability Accommodations:

USC welcomes students with disabilities into all of the University’s educational programs. The Office of Student Accessibility Services (OSAS) is responsible for the determination of appropriate accommodations for students who encounter disability-related barriers. Once a student has completed the OSAS process (registration, initial appointment, and submitted documentation) and accommodations are determined to be reasonable and appropriate, a Letter of Accommodation (LOA) will be available to generate for each course. The LOA must be given to each course instructor by the student and followed up with a discussion. This should be done as early in the semester as possible as accommodations are not retroactive. More information can be found at osas.usc.edu. You may contact OSAS at (213) 740-0776 or via email at osasfrontdesk@usc.edu.

Support Systems:

Counseling and Mental Health - (213) 740-9355 – 24/7 on call
studenthealth.usc.edu/counseling

Free and confidential mental health treatment for students, including short-term psychotherapy, group counseling, stress fitness workshops, and crisis intervention.

National Suicide Prevention Lifeline - 1 (800) 273-8255 – 24/7 on call
suicidepreventionlifeline.org

Free and confidential emotional support to people in suicidal crisis or emotional distress 24 hours a day, 7 days a week.

Relationship and Sexual Violence Prevention Services (RSVP) - (213) 740-9355(WELL), press “0” after hours – 24/7 on call
studenthealth.usc.edu/sexual-assault

Free and confidential therapy services, workshops, and training for situations related to gender-based harm.

Office for Equity, Equal Opportunity, and Title IX (EEO-TIX) - (213) 740-5086
eeotix.usc.edu

Information about how to get help or help someone affected by harassment or discrimination, rights of protected classes, reporting options, and additional resources for students, faculty, staff, visitors, and applicants.

Reporting Incidents of Bias or Harassment - (213) 740-5086 or (213) 821-8298
usc-advocate.symplicity.com/care_report

Avenue to report incidents of bias, hate crimes, and microaggressions to the Office for Equity, Equal Opportunity, and Title for appropriate investigation, supportive measures, and response.

The Office of Student Accessibility Services (OSAS) - (213) 740-0776
osas.usc.edu

OSAS ensures equal access for students with disabilities through providing academic accommodations and auxiliary aids in accordance with federal laws and university policy.

USC Campus Support and Intervention - (213) 821-4710
campussupport.usc.edu

Assists students and families in resolving complex personal, financial, and academic issues adversely affecting their success as a student.

Diversity, Equity and Inclusion - (213) 740-2101

diversity.usc.edu

Information on events, programs and training, the Provost's Diversity and Inclusion Council, Diversity Liaisons for each academic school, chronology, participation, and various resources for students.

USC Emergency - UPC: (213) 740-4321, HSC: (323) 442-1000 – 24/7 on call

dps.usc.edu, emergency.usc.edu

Emergency assistance and avenue to report a crime. Latest updates regarding safety, including ways in which instruction will be continued if an officially declared emergency makes travel to campus infeasible.

USC Department of Public Safety - UPC: (213) 740-6000, HSC: (323) 442-120 – 24/7 on call

dps.usc.edu

Non-emergency assistance or information.

Office of the Ombuds - (213) 821-9556 (UPC) / (323-442-0382 (HSC)

ombuds.usc.edu

A safe and confidential place to share your USC-related issues with a University Ombuds who will work with you to explore options or paths to manage your concern.

Occupational Therapy Faculty Practice - (323) 442-3340 or otfp@med.usc.edu

chan.usc.edu/otfp

Confidential Lifestyle Redesign services for USC students to support health promoting habits and routines that enhance quality of life and academic performance.